



Arizona Health Care Cost Containment System

Quarterly Report

July 1st - September 30, 2001

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August, 2001

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Executive Summary

This Quarterly Report covers the period from July 1, 2001 through September 30, 2001. Major activities in this quarter centered on preparing for the implementation of Proposition 204 and the 100% FPL Waiver on October 1, 2001. Implementation included the elimination of state funded populations and converting those eligible to Title XIX non-categorical under the 100% FPL Waiver. State law required that county eligibility staff, who determined eligibility for the state funded population, be given the opportunity to work for the state. The transitioning of county eligibility staff to the Department of Economic Security (DES) began this quarter. DES began to accept applications for the new populations in September.

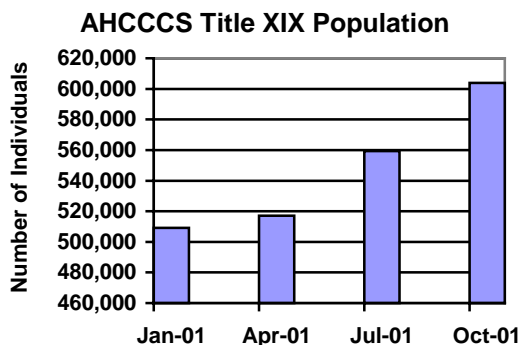
Due to legislative action, the Inpatient Hospital Managed Care Pilot Program was reinstated for Maricopa and Pima Counties beginning 10/1/01 through 9/30/03.

The Office of Program Integrity (OPI) went over the \$3 million mark in hard dollar fraud recoveries.

Contracts for the ALTCS' Elderly and Physically Disabled populations, awarded in May 2001, resulted in new program contractors in Greenlee, Santa Cruz, and Gila counties. ALTCS Unit staff conducted on-site readiness reviews to ensure that the three program contractors who were taking over the three new counties had the necessary infrastructure, including networks, staff, and branch offices.

AHCCCS Population

On October 1, 2001, the AHCCCS Title XIX population totaled 603,805 individuals. This included 571,085 individuals receiving acute care services and 32,720 members receiving ALTCS services.



During the previous quarter, AHCCCS experienced an approximate 8% growth in the Title XIX population. Much of this net increase was due to the addition of several groups of individuals added as the result of Proposition 204.

During the quarter, the agency's outreach efforts resulted in the addition of a significant number of parents of SOBRA children with incomes up to 100% of the federal poverty

level. In addition, the Title XIX population increased with the addition of childless couples and adults with incomes up to 100% of the FPL who would otherwise not be categorically eligible.

New Developments

Proposition 204/Waiver Implementation Efforts

State Plan Amendments

In July, AHCCCS implemented two State Plan Amendments (SPA) relating to the implementation of Proposition 204, passed by Arizona voters in November 2000, and the 100% FPL Waiver, approved by CMS in January, 2001. The first SPA allows an additional income disregard which increases the family's income limit from 36% of the 1992 FPL to 100% of the current FPL. The second SPA accelerates the phasing in of 18 year old federal poverty level children to age 18. This permits all federal poverty level children under the age of 19 whose income meets the 100% FPL limit to be approved for Medicaid, provided all other eligibility requirements are met

Elimination of State Funded Population/Conversion of County Employee To State Employees

Due to passage of state legislation implementing Proposition 204 and the 100% FPL Waiver, the state medically indigent and medically needy program was eliminated effective October 1, 2001. This population was converted to Title XIX non-categorical under the 100% FPL Waiver. The transitioning of county eligibility staff to the DES began this quarter. DES began to accept applications for the Title XIX waiver program in September.

All county eligibility-related employees with a few exceptions will become state employees effective October 1, 2001. Due to state law, county eligibility workers had the opportunity to transfer to DES. This required the DES to develop and sign an intergovernmental agreements with 15 counties concerning transitioning of staff, facilities and equipment.

Policy and automated systems changes were developed and implemented over the last several months to address the waiver and Proposition 204 provisions.

Training

In addition to training of all eligibility staff, DES and AHCCCS provided state wide training of hospital staff on the new Title XIX application process. This training focused primarily on the population that typically had been the state funded medically indigent or medically needy population and the prior responsibility of county staff.

DES Outstationed Staff

DES has outstationed eligibility staff or staff on call at hospitals at the same staffing/on call level as previously staffed by the county. In order to determine future staffing needs, DES has developed a monitoring process to track applications coming from each hospital. Application information will be reviewed regularly by AHCCCS to ensure coverage is maintained in each hospital.

DES hired a full time hospital liaison reporting directly to the Director to work with the hospitals and federally qualified health centers to ensure smooth transition and to address issues as they arise.

AHCCCS/DES Intergovernmental Agreement (IGA)

The AHCCCS/DES IGA was revised to address the added responsibilities of DES. In addition, performance standards with sanction authority were developed and included in the IGA.

Hospital Pilot Program

Due to legislative action, the inpatient hospital managed care pilot program was reinstated for Maricopa and Pima Counties beginning 10/1/01 through 9/30/03. The Hospital Pilot Program requires health plans in Maricopa and Pima counties to contract with hospitals in their geographic service areas to cover acute care hospital services for AHCCCS members.

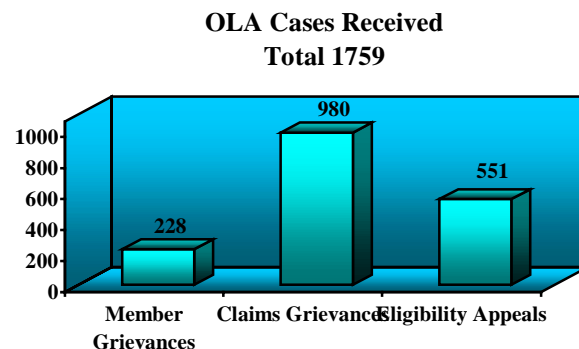
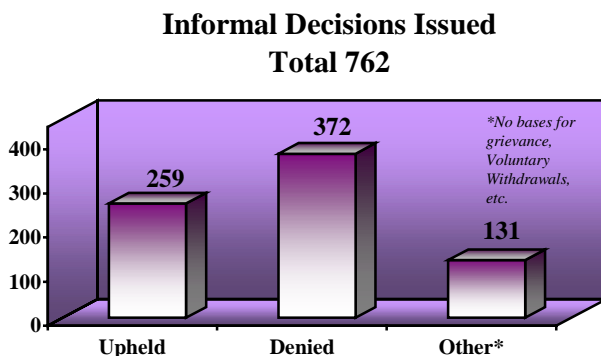
Fraud and Abuse Recoupment

The Office of Program Integrity (OPI) went over the \$3 million mark in hard dollar fraud recoveries. This achievement nearly doubles OPI's financial goal for Calendar Year 2001. OPI's latest settlement was with BMA of Arizona, a dialysis company, which overcharged the AHCCCS Administration for laboratory tests and Epogen. BMA agreed to repay AHCCCS \$445,000.

Updates

Office of Legal Assistance (OLA)

During the quarter OLA received 1759 requests for hearings. Requests fell into one of three types of cases: Member Grievances, Claims Grievances, and Eligibility Appeals. (Chart 1)



Over 50% of the requests for hearings involved grievances regarding claims. OLA resolved 762 cases informally, eliminating the need for a formal hearing. (Chart 2)

This quarter the Director issued 789 decisions. The majority of these decisions were issued with the Arizona Law Judges' recommendations. (Chart 3)

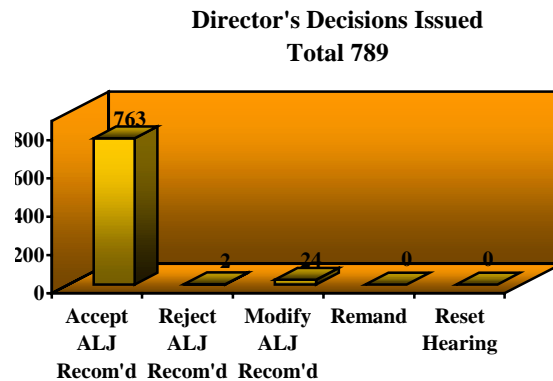
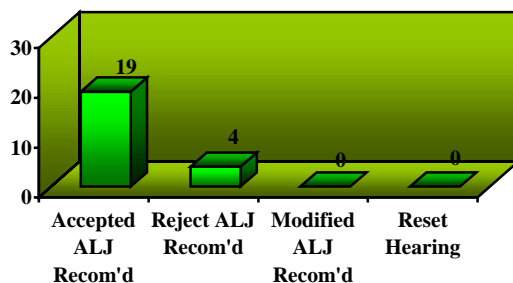


Figure 4
Director's Decisions Issued
Total 23



Encounter Validation Study

The Contract Year 1998/1999 Encounter Data Validation Study is coming to a close. *(Please note: The dates for the Encounter Data Validation Study in the previous Quarterly report were incorrect. The correct dates should have been Contract Year 1998/1999)* Analysis of contractor feedback to the acute and behavioral preliminary results began this quarter. The analysis of the Encounter Data validation Study and the submittal of final results to the contractors is expected to be completed during the next quarter.

The Contract Year 1999/2000 Encounter Data Validation Study began this quarter. Approximately one-half of the necessary medical records were collected this period. It is anticipated that all the records will be collected and that the comparison of medical records to encounters will begin during the next quarter.

Encounter Operations

Encounter and report transmissions between AHCCCS and contractors continue via file transfer protocol (FTP) transmission. Some FTP transmission problems continued and were fixed during this quarter. A newer version of the FTP transmission program, which

will eliminate current FTP data transmission problems, is expected during the next quarter.

Rate Setting

The following fee-for-service (FFS) rates were updated for dates of service on and after October 1, 2001. The estimated fiscal impacts on FFS payments for each are also provided. Inpatient hospital: increase of 4.0% on FFS expenditures; Outpatient hospital: statewide cost-to-charge ratio decreased by 0.8%; Home and community based services: increase of 16.75% on FFS expenditures; Ambulatory surgical centers: increase of less than 1% on FFS expenditures; and Anesthesia: increase of 4.3% on FFS expenditures.

Disproportionate Share Hospital Payments

Disproportionate share hospital payments were made for FYE 2001. The FFS nursing facility rates were updated for dates of service on and after October 1, 2001. The preliminary estimated fiscal impact on FFS payments was 5.6%. However, this percentage may change as more recent time and motion data has become available in the past month which may adjust these rates further.

National Meetings

Staff participated in several national telephone conference calls regarding HIPAA implementation and implementation issues. Staff is expected to continue participating in these calls and in meetings scheduled for the next quarter.

Reorganization of the Office of Program Integrity (OPI)

Following the recent merger of the Member Eligibility and Provider Fraud Investigations units, OPI submitted a proposal to Human Resources (HR) to consolidate all investigators into a single broad-banded personnel classification. The purpose of the new position classification, to be called "Health Care Fraud Investigator," is to eliminate pay and classification inequities that resulted when the two units were merged. The new classification would also facilitate cross training and greater flexibility in the use of investigative resources. The plan was approved by HR in September and will be submitted to the Department of Administration for its review and approval.

Abuse of Prescription Drugs and Deontology

OPI's audit activities focused on abuse of prescription drugs by AHCCCS members, and neonatology services. OPI is evaluating safeguards and controls designed to ensure that prescription drugs paid for by the program, such as oxycontin and other controlled substances, are not subject to abuse or unauthorized use. Safeguards in place at pharmacies, health plans and program contractors, and pharmacy benefits

managers are being examined to determine if they are adequate and sufficient to prevent member abuses. The purpose the audit for neonatology services is to determine if billing irregularities discovered during a case investigation last year represent a broader program problem. The prior investigation looked at one provider group, however, numerous other providers bill for similar neonatology services.

Contract Activities

During the period of July 1, 2001 through September 30, 2001, AHCCCS initiated, awarded or amended contracts or agreements in the following areas: printing services; Premium Sharing Program; behavioral health; Human Resources; SDX/BENDEX Data Sharing; acute care; ALTCS; Managed Transplant Insurance Services; Management Consultant contractors for work on HIPAA and HRSA special projects; and a software lease agreement for proprietary software.

TPL Recoveries

First and third party recoveries from estates, trusts, adoptions, insurance, and casualty & restitution totaled \$847,708. for this quarter. Of this amount \$668,035. were recoveries from Title XIX populations and \$179,673. were recoveries from State funded populations.

Acute Care Program

Acute Operational and Financial Reviews

Operational and Financial Reviews of acute care contractors continued this quarter. During the quarter, the Office of Managed Care, in conjunction with the Office of Medical Management, conducted reviews at Family Health Plan of Northeastern Arizona and Arizona Physicians IPA. The final report for the Health Choice Arizona's Operational and Financial Review for CYE 2001 was mailed to the health plan. Reviews of Children's Rehabilitation Services (CRS), CIGNA and DES' Comprehensive Medical and Dental Program (CMDP) are scheduled for the remainder of 2001.

Statewide Provider Meetings

Provider meetings were held throughout the state for AHCCCS providers. Topics of discussion included Proposition 204, AHCCCS Pharmacy Benefits Manager fee-for-service pharmacy claims and status of the Health Insurance Portability and Accountability Act. (HIPAA).

Non-clinical Performance Measures

The Office of Managed Care continued to work on baselines for non-clinical performance measures. This quarter's efforts focused on the analysis of the baseline

for the Practitioner Turnover non-clinical indicator. Additional testing will be performed in the next quarter to assess the accuracy and value of the accessibility of the system for members who speak a foreign language.

ALTCS Program

ALTCS Operational and Financial Reviews

During this quarter the ALTCS Review Team began meeting to plan for Operational and Financial Reviews for CYE 2002. These reviews will begin in November 2001. The team discussed changes to the Operational and Financial Review Tool, scheduling, and review priorities. Priorities were determined to be new contract requirements and areas where previous reviews have found the program contractors achieving low levels of compliance.

Transition Activities

Contracts for the Elderly and Physically Disabled populations awarded in May 2001 resulted in new program contractors in three counties, Greenlee, Sanata Cruz and Gila. The three program contractors who were awarded the counties meet with AHCCCS staff and the relinquishing program contractor during this quarter to plan the transition. The primary area of concern during the transition was to ensure uninterrupted care for all members. Areas of particular attention was paid to high-risk members residing in the community. Areas of primary focus were pharmacy services, attendant care services, and transition of durable medical equipment. The planning resulted in no significant problems for the 500 members who transitioned on October 1, 2001.

ALTCS Readiness Reviews

As noted above, contracts for the ALTCS Elderly and Physically Disabled populations awarded in May 2001 resulted in new program contractors in three counties. ALTCS Unit staff conducted on-site readiness reviews to ensure that the three program contractors who were taking over new counties had the necessary infrastructure, including networks, staff, and branch offices. All three program contractors passed the readiness review and took over responsibility for the members in the new counties on October 1, 2001.

Behavioral Health

ADHS/DBHS Contract Renewal

AHCCCS finalized the ADHS/DBHS contract renewal for the contract year ending June

30, 2002. The contract year cycle was changed from October 1 through September 30 to July 1 through June 30 to accommodate ADHS, and to facilitate the maintenance of the RBHA contracts which are on the July-June cycle. The July 1 contract amendment included several programmatic changes for the implementation of Proposition 204 and new requirements to fulfill obligations in the JK Settlement Agreement.

AHCCCS will prepare a contract amendment for October 1 to implement changes resulting from the Covered Services Project and new behavioral health licensure rules.

Seclusion and Restraint

New federal Seclusion and Restraint regulations (42 CFR 438(G) requiring certain AHCCCS providers to submit compliance attestation statements became effective in July. AHCCCS worked with the ADHS Office of Behavioral Health Licensure to notify those facilities who were required to comply with the new regulations. The required attestation notices from the facilities have subsequently been obtained.

Covered Services Implementation and Training Activities

Changes to the descriptions and array of covered behavioral health services have been designed to provide a more flexible services package, to support development of individual/family centered delivery models, and to recognize and reimburse support services provided by certain non-licensed providers such as community service providers.

In anticipation of the October 2001 implementation of the Covered Services Project, staff from the AHCCCS Behavioral Health Unit accompanied ADHS/BHS staff on the Covered Services Project training sessions held throughout the state. AHCCCS provider registration, proper coding and billing, appropriate service providers and IMDs. AHCCCS staff provided similar training and technical assistance to ALTCS Program Contractors.

Behavioral Health FFS Rates

Fee-for-services rates for certain behavioral health services were revised effective July 1, 2001. The changes are the result of an analysis performed by ADHS/DBHS consultants and were reviewed and approved by AHCCCS.